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TAGS: EFIN ECON TU
SUBJECT: GRAB BAG OF MEASURES TO STIMULATE THE ECONOMY

¶1. Summary and comment. Prime Minister Erdogan announced a group of incentives designed to stimulate the economy and get Turks shopping. The cost of the incentive measures is estimated to be 600-700 million TL (USD 400-467 million) and will be paid for by a 50 kurus (USD .33) tax increase on each pack of tobacco, cigarettes, and cigars. The tax cuts are a continuation of Special Consumption Tax (OTV) cuts begun in March 2009, although they have been re-jiggered slightly to target different products. While the results of the incentives will not be known for several months, using the tobacco tax increase to compensate for the OTV cuts is a welcome sign of fiscal prudence. Separately, Deputy Prime Minister for the Economy Babacan announced a deal to encourage credit card holders to pay off their delinquent debts. The credit card debt repayment program is aimed at reducing delinquencies that topped more than USD two billion as of April 2009. The credit card repayment plan seems to be a manageable way out of a debt problem affecting 874,700 Turks. Banks will lose out on some interest and late fees, but they are more likely to be repaid for base debts under the compromise. End summary.

Incentives

¶2. The incentives are all in the form of cuts in the Special Consumption Tax (OTV). Through September 30, the OTV on medium to small cars (1600 cc and below) will be 27 percent. This is one category where the GOT seems to think the March-June tax cut has already had much of its intended effect. Taxes were dropped significantly for light commercial vehicles, whose sales have dropped more than 50 percent during the economic crisis. The OTV on pick-up trucks is now two percent. For trucks, mini buses, and special-purpose vehicles the OTV is now one percent. For buses there is no OTV charge. The GOT is continuing OTV cuts on computers and furniture at eight percent, while the OTV on white goods is cut to two percent. The OTV on housing and construction equipment was reduced to eight percent between March and June, but those cuts will not be extended.

FX Loans and Credit Card Debt Repayment

¶3. Deputy Prime Minister for the Economy Ali Babacan announced new measures to facilitate FX financing for private sector loans and to address the growing problem of delayed and delinquent credit card payments. In the past, companies without foreign-earned income were prohibited from taking out foreign currency-denominated loans from Turkish banks. Many company owners circumvented the prohibition by using their offshore FX deposits to guarantee their FX loans from foreign banks. Babacan said the limiting policy had helped to insulate Turkish borrowers from negative effects of the global economic crisis, but now it will be modified to allow large companies to take out foreign currency-denominated loans if they are borrowing more than USD five million and if the term is longer than one year. Babacan believes this change will help large domestic companies and also bring a net reduction in Turkey's foreign borrowings overall by

allowing companies to borrow inside Turkey as they have offshore.

¶4. Unpaid debt from credit cards has been increasing faster than any other loan category. Babacan announced that as of April, delinquent credit card balances totaled 3.1 billion TL (USD 2.06 billion) owed by 874,700 people. More than half of these defaulted loans are below 1,000 TL (USD 667). Banks have traditionally charged 5.5 percent monthly interest to delinquent borrowers and the credit card debt stock has skyrocketed. To address the problem, the GOT made a deal with the Banks' Union to offer advantageous terms to people willing to pay off their delinquent debts. The Turkish Parliament is working on fast-track approval of the bill, which would allow credit card debtors to sign a one-time agreement to pay off their existing debt immediately at no interest. If the debtors need to pay over time, their monthly interest will drop to 1.04 percent over six months, with a sliding scale up to 1.26 percent per month over 36 months. All this is contingent on freezing the account and not incurring additional credit card debt. The legislation is also slated to reduce annual fees for credit cards to approximately one percent of the credit limit.

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